

July 1, 2004

To the Board of Trustees
Charter Township of Independence
90 North Main Street
Clarkston, MI 48016

Dear Board Members:

We recently completed the audit of the financial statements of the Charter Township of Independence for the year ended December 31, 2003. In addition to the audit report, we offer the following comments for your consideration.

ACCOUNT RECONCILIATIONS AND MANUAL JOURNAL ENTRIES

In planning and performing our audit of the Township's financial statements each year, we consider the Township's internal control structure in order to determine our audit procedures for the purposes of expressing our opinion on the financial statements. The consideration we give to the internal control structure is not sufficient for us to provide any form of assurance. However, our review of the Township's internal control structure and operation leads us to an assessment that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants.

Reportable conditions are significant deficiencies in the design or operation of the internal control structure that have come to our attention and, in our judgment, could adversely affect the Township's ability to record, process, summarize and report financial data consistent with the Township's management assertions inherent in the financial statements. We consider the following deficiencies in the design and operation of the internal control structure to be reportable conditions.

The Township did not complete bank reconciliations on a timely basis throughout the year. Further, reconciling items identified on bank reconciliations are not posted to the general ledger throughout the year. The Township accumulates the known adjustments and records the activity once at year-end. We recommend reconciling the Township's cash accounts monthly and update general ledger activity accordingly by an employee independent of the cash collection, recording and processing functions.

Monthly, manual journal entries are posted to reflect activity not accounted for in the Township's subsidiary ledgers. For example, interest income earned on the Township's investments would be recorded via a manual journal entry. During the audit, we discovered all manual journal entries for the year ending December 31, 2003 were not posted to the general ledger. Subsequent to year-end, the Township recorded all the manual journal entries necessary for the year ended December 31, 2003. We recommend implementing closing procedures that address posting manual journal entries timely. In addition, the manual journal entry process should include a review of all journal entries by a second individual (with an initial and date to document the review).

STATE FUNDING OVERVIEW

Municipalities in Michigan have and will continue to feel the effects of the slow down in the State's economy. State shared revenue accounted for approximately 44 percent of the Township's total General Fund revenue for the calendar year ended December 31, 2003. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the last several years have been lower than anticipated.

The following depicts the Township's actual and estimated revenue sharing payments over a five year period - from the State's fiscal year ending September 30, 2001 through the fiscal year ending September 30, 2005.

	Actual <u>FY 2001</u>	Actual <u>FY 2002</u>	Actual <u>FY 2003</u>	Estimated <u>FY 2004</u>	Estimated <u>FY 2005</u>
Constitutional	\$ 2,114,252	\$ 2,135,790	\$ 2,171,947	\$ 2,153,904	\$ 2,240,010
Statutory	786,003	726,708	617,573	356,527	252,130
Total payments	<u>\$ 2,900,255</u>	<u>\$ 2,862,498</u>	<u>\$ 2,789,520</u>	<u>\$ 2,510,431</u>	<u>\$ 2,492,140</u>
Dollar change		\$ (37,757)	\$ (72,978)	\$ (279,089)	\$ (18,291)
Percentage change		-1.30%	-2.55%	-10.00%	-0.73%

While Independence Township's constitutional revenue sharing payments have been increasing slightly each year, the statutory piece of revenue sharing is estimated to drop almost \$534,000 since 2001. For the State's fiscal year 04/05, the Governor has proposed to hold the line on revenue sharing – meaning that FY 04/05 levels will equal FY 03/04 levels – but only for cities, villages and townships. As you can see, the proposed revenue sharing for Independence Township for the State's fiscal year ending September 30, 2005 is \$2,492,140, which represents a reduction of approximately \$18,000 from the estimated amount for the State's fiscal year ending September 30, 2004.

Although sales tax revenue would support an increase to state shared revenue payments, the State's budget situation remains troublesome at best. It is generally acknowledged that the State's budget woes will continue for several more years. As a result, we continue to urge the Township to be conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

OTHER ACCOUNTING AND SYSTEM ISSUES

The following is a list of accounting and internal control matters that we noted during the course of our audit:

- State law requires quarterly budget status reports be provided to members of the Township Board. It appears these reports are not being provided to the Township Board quarterly. Budget status reports act as an integral internal control for the Township. These reports allow board members to identify instances where budget overruns have occurred and take action where appropriate. Also, these reports help decision makers determine whether the township is operating within its means and whether unusual fluctuations in revenue and expense accounts require additional follow-up and scrutiny by the Board. We suggest providing budget status reports, at a minimum, quarterly to the Township Board.
- We continue to note instances where special assessment districts may be in a refunding situation. We believe that you should create a system to evaluate the adequacy of the assessment amount, once construction is substantially complete. Over-assessments of 5 percent or more need to be returned to property owners. Under-assessments need to be identified and a plan created to fund them. During the audit, we noticed a few special assessment districts that should be evaluated currently: Bowpointe, Woodhull and Curtis Lane.
- Delinquent personal property taxes are recorded in the Township's general ledger back to 1983. Several account balances have a negative balance resulting from posting collections to the wrong account in previous years. We suggest reviewing all delinquent personal property taxes and adjusting the accounting records accordingly. Furthermore, the Township should consider writing off delinquent accounts greater than three years old by obtaining the appropriate court approval.

REMOTE LOCATIONS

Despite the fact that most municipalities have formal internal control policies governing cash receipt procedures, they are often not fully implemented at cash receipt locations outside of the main municipal campus. Independence Township is no exception. As part of the audit, we reviewed the internal controls over the cash receipts being collected by the Parks and Recreation Department. We noted an instance where internal controls over cash receipts at this location could be enhanced.

- Access to the cash drawer should be limited to a few employees. We noted 6 full-time and 1 part-time employees had access to the cash drawer. We suggest limiting access to a few employees.

The implementation of this additional procedure will help to ensure the entirety of the funds being collected is appropriately accounted for.

Board of Trustees
Charter Township of Independence

July 1, 2004

We would like to thank you and your staff again this year for their cooperation and assistance provided during the audit. If you have any questions, or would like to discuss these items further, please feel free to contact us at your convenience.

Yours truly,

PLANTE & MORAN, PLLC



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